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[REDACTED]

OGI International Financial Situation Report #21
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ARGENTINA

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Buenos Aires suffered a major setback in its efforts to resolve its debt problems last month. On 27 September, a federal judge in a remote province declared the rescheduling agreement for the state airline--a model for future reschedulings and a prerequisite for immediate loan disbursements--illegal citing violations of national sovereignty. The judge's actions, which included the temporary arrest and questioning of the central bank president, threw a scare into international lenders. They also caused a delay in disbursement of a \$1.5 billion commercial bank medium-term loan, necessary to repay a bridge loan arranged last December. Although the Bignone government moved rapidly to overturn the judge's ruling, the blow to banker confidence increased pressure to delay further reschedulings until members of the new government to be elected on 30 October can be included in discussions with bankers. [REDACTED]

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Meanwhile the Argentine economic team is struggling to avert liquidity problems. The traditional fourth quarter decline in exports is straining Buenos Aires' ability to meet cash obligations. With its earnings slowed, Buenos Aires had to draw down foreign reserves to near \$200 million to bring bank interest payments current as of 30 September required to

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meet banker demands. The IMF, however, continues to withhold some \$320 million in standby funds, refusing to waive technical issues, and will likely withhold a similar amount coming available in late November. In turn, private banks are holding up their loan disbursements because of Fund delays and the government's postponement of a repayment against a \$1.1 billion bridge loan. Without the long-delayed IMF and bank funds, Buenos Aires lacks the cash to satisfy banker demands. [REDACTED]

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We expect little progress in Argentina's debt talks in the next month. [REDACTED] there may still be a disbursement of \$500 million before the elections. Lenders plan to revive talks with a newly-elected civilian government, which may assume power as early as 5 December. If the new regime--occupied with domestic affairs--is reluctant to move rapidly to satisfy banker demands and come to an understanding with the IMF, further payments extensions will be required and Argentina may not see additional flows of foreign exchange before February of next year. [REDACTED]

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BRAZIL

Prospects for concluding an IMF accord recently have been jeopardized by a rebellious Brazilian Congress that has threatened to repeal a key wage restraint law (2045) which limits wage hikes to 80 percent of the consumer price index. According to the US Embassy, a rising tide of public protest against the wage law coupled with congressional rejection in late September of a different but analogous decree have raised the likelihood that a similar fate will befall decree-law 2045. Despite the congressional setback and strong prevailing popular resentment against the policy dictates of the IMF, the administration is mobilizing to meet its commitment to legislate wage restraint. According to another US Embassy report, decree-law 2045 will be withdrawn and replaced by a broad-ranging new decree-law which covers virtually the gamut of economic policy. The replacement would include wage control provisions that would balance out essentially the same as 2045 but fall heavier on the upper income brackets than on those in the lowest wage categories. The government party has been given a prominent role in seeking to negotiate such a broad policy decree, has the power to keep the main lines of its wage policy intact and, according to the US Embassy, will do so.

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6/ Any delay in enacting the wage decree-law will also hinder Brasilia's ability to obtain the an additional \$16.5 billion in loans that has been tentatively committed by international creditors to meet its foreign financing through 1984. This new arrangement includes: (a) an agreement by the foreign bank advisory committee for \$6.5 billion in new loans as well as \$5.5 billion of 1984 principal reschedulings; (b) tentative pledges of \$2 billion in rescheduled debt for foreign governments in the Paris Club; and (c) \$2.5 billion in loan

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guarantees from foreign official export credit agencies.

Moreover, the foreign bank financing package for the first time offered Brazil some concessions on loan terms, perhaps auguring additional debt relief needed to relax external constraints.

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[redacted] however, getting
commitments from many of the more than 800 Brazilian commercial bank creditors will be extremely difficult. Many European and Japanese banks believe that they are being asked to contribute too much compared to assistance rendered by US banks and the US Government. [redacted]

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COLOMBIA

Despite difficulty in securing foreign funds in 1983, Bogota is launching a major fund-raising drive for over \$3 billion to finance development projects over the next four years. The request for these funds will be presented at the Consultative Group meeting in Paris from 17-19 October.

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[redacted] bankers remain concerned about increasing their exposure in Colombia. They cite growing delays in meeting payments and rapid foreign exchange drawdowns auguring the possibility that Colombia will join other South American countries in rescheduling its external debt under IMF auspices next year. A failure to obtain credit for the development projects would heighten prospects for a debt rescheduling in coming months, and undermine Colombia's longer-term economic development prospects. [redacted]

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VENEZUELA

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At present levels of spending, Caracas will run an estimated 5 percent deficit next year confronting the new administration taking office in early 1984 with tough decisions on retrenchment.

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Caracas is belatedly taking steps to clear past due payments, another contentious issue with the IMF. Last month, Venezuela's Council of Ministers established a committee which would allow the Central Bank to release dollars at the preferential rate for \$400-600 million in overdue interest payments on private debt. Because of this move, the bankers have given Caracas another 30-day deferral on the repayment of public debt principal. Bankers have stipulated that all interest arrearages on private debt must be brought current by 31 October if Venezuela expects to receive an additional 90-day grace period on the repayment of public debt principal.

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This move, however, has not stilled criticism of the government's handling of the current financial crisis. The presence of Central Bank representatives on the committee and

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the requirement for vote unanimity in determining business eligibility for preferential exchange rates has raised concern about a frequent Central Bank veto. Businessmen fear a continuation of the present administration's bias against settling private obligations quickly and continued difficulty in securing trade credits necessary to ensure vital imported supplies. In the closing weeks of the campaign for December's presidential election, this issue is taking on political overtones. The national labor confederation and even the governing party's presidential candidate Rafael Caldera are openly siding with the private sector, while only the leftist political parties are supporting the government on this issue. The victorious candidate will need to accomodate the private sector demands for the subsidized exchange rate if he is to avoid strong criticism.

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